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EXCISE

DATE
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INQUIRE=DOC18D
ITEM NO=00473912
ENVELOPE

CDSN = LGX867 MCN = 92205/05530 TOR = 922050435
RTTCZYUW RUEKJCS0381 2050439-CCCC--RUEALGX.
ZNY CCCCC

HEADER

R 230439Z JUL 92
FM JOINT STAFF WASHINGTON DC
INFO RUEADWD/OCSA WASHINGTON DC
RUEAHQA/CSAF WASHINGTON DC
RUCGDEF/NATS PENTAGON WASHINGTON DC
RUEADWD/PTC WASH DC
RUFGAID/USEUCOM AIDES VAIHINGEN GM
RHDLCNE/CINCUSNAVEUR LONDON UK//N2/N22//
RHHMMC/ JICPAC HONOLULU HI
RHCGSRB/COMUSARCENT FT MCPHERSON GA//AFRD-DSO//
RUEOACC/CDRPSYOPGP FT BRAGG NC//AORC-POG-SB//
RUWSMXI/AMC INTEL CEN SCOTT AFB IL//IN//
RUCJACC/USCINCCENT MACDILL AFB FL//CARA//
RUCQVAB/USCINCSOC INTEL OPS CEN MACDILL AFB FL
RUEOFAA/COMJSOC FT BRAGG NC//J2//
RULKQAN/MARCORINTCEN QJANTICO VA
RUSNNOA/USCINCEUR VAIHINGEN GM
RUEALGX/SAFE

R 221445Z JUL 92
FM AMEMBASSY RIYADH
TO RUEHC/SECSTATE WASHDC 7860
INFO RUFHLD/AMEMBASSY LONDON 5135
RUEHKO/AMEMBASSY TOKYO 1001
RUFHOL/AMEMBASSY BONN 1746
RUEHBM/GCC COLLECTIVE
RUEATRS/TREASURY WASHDC

BT

CONTROLS

CONFIDENTIAL SECTION 01 OF 02 RIYADH 05396

E.O. 12356: DECL: OADR

/***** THIS IS A COMBINED MESSAGE *****/

BODY

TAGS: EFIN, SA
SUBJECT: BCCI FALLOUT: NCB PLAYING SOLITAIRE

REFS: (A) RIYADH 5034, (B) JEDDAH 1262

1. (CONFIDENTIAL - ENTIRE TEXT).

2. SUMMARY: THE BCCI-RELATED INDICTMENT OF KHALID BIN MAHFOUZ, FORMER HEAD OF THE NATIONAL COMMERCIAL BANK (NCB), CONTINUES SO FAR TO HAVE LITTLE IMPACT ON THE

DEPARTMENT OF STATE

() RELEASE () DECLASSIFY
(X) EXCISE (X) DECLASSIFY
() DENY IN PART
() DELETE Non-Responsive Info
FOIA Exemptions B3, B4
PA Exemptions

IS/FPC/CDR

MR Cases Only:
EO Citations

TS authority
() CLASSIFY as () S or () C OAL
() DOWNGRADE TS to () S or () C OAL

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OVERALL SAUDI BANKING SYSTEM. CAPITAL FLIGHT FROM THE KINGDOM HAS NOT OCCURRED; BANKS ABROAD HAVE INDICATED THEIR CONTINUED CONFIDENCE IN NCB'S 11 DOMESTIC COMPETITORS; AND THE THREAT OF AN INSOLVENT NCB TAKING OTHER BANKS DOWN WITH IT IS REMOTE. THIS GENERALLY GOOD NEWS CONTRASTS SHARPLY, HOWEVER, WITH THE GLOOMY LANDSCAPE NCB ITSELF FACES.

B4

IN ADDITION, PRESSURE IS BUILDING ON IT TO PUBLISH AN ANNUAL REPORT--FOR THE FIRST TIME SINCE 1989--BUT FORMIDABLE ACCOUNTING COBWEBS ALMOST CERTAINLY STAND IN THE WAY. END SUMMARY.

GENERAL FORECAST IS MOSTLY SUNNY, BUT...

3. THE BCCI-RELATED INDICTMENT AND RESIGNATION OF KHALID BIN MAHFOUZ, FORMER HEAD OF THE NATIONAL COMMERCIAL BANK (NCB), CONTINUES TO HAVE A LIMITED IMPACT ON SAUDI ARABIA'S FINANCIAL SYSTEM.

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4. CONTACTS ADDRESSED SEVERAL SPECIFIC CONCERNS THAT AROSE SUBSEQUENT TO THE PUBLIC DISPLAY OF KHALID'S BCCI ENTANGLEMENTS. VIRTUALLY NO SIGNS OF CAPITAL FLIGHT FROM THE COUNTRY HAD YET BEEN OBSERVED, ACCORDING TO THESE OFFICERS, WHO ALSO CLAIMED THAT THEIR PROFESSIONAL COUNTERPARTS OUTSIDE THE KINGDOM HAD CONFIRMED CONTINUED CONFIDENCE IN NCB'S 11 DOMESTIC COMPETITORS. ONE [] NOTED THAT MOST FOREIGN BANKS HAD HAD SERIOUS RESERVATIONS ABOUT NCB EVEN BEFORE KHALID-BCCI, AND THAT THESE CONCERNS HAD ONLY BEEN HEIGHTENED BY NCB'S FAILURE TO PUBLISH AN ANNUAL REPORT SINCE 1989. FINALLY, THEY ALL EMPHASIZED THAT THE RISK OF AN INSOLVENT NCB TAKING DOWN OTHER DOMESTIC BANKS WITH IT WAS REMOTE FOR TWO REASONS: NCB IS A SIGNIFICANT NET CREDITOR WITHIN THE SAUDI BANKING SYSTEM, AND THE SAUDI CENTRAL BANK--IN KEEPING WITH PAST PERFORMANCES--WOULD PULL OUT ALL STOPS TO SAVE A KINGDOM BANK. (BUT, SEE COMMENT).

B1

B1

5. ONE DEVELOPMENT THAT BEARS WATCHING IS A STIFF FALL IN THE PRICE OF STOCK OF THE KINGDOM'S SECOND LARGEST BANK. THE SHARE PRICE FOR RIYAD (WITHOUT THE H) BANK STOCK WAS SR 1,148 ON JULY 1; IT HAD FALLEN 8.4 PERCENT

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TO SR 1,052 ON JULY 21. THE DROP HAS BEEN PORTRAYED IN THE LOCAL PRESS AS A REACTION TO LOWER THAN EXPECTED RIYAD BANK PROFITS THROUGH THE SECOND QUARTER. AN INDEX OF STOCK PRICES OF 9 KINGDOM BANKS, INCLUDING RIYAD, DURING THE SAME PERIOD SHOWS A 4 PERCENT DECLINE.

... UNDERSTORMS HAVE SETTLED OVER NCB

6. THE GENERALLY BRIGHT STATUS OF THE SAUDI BANKING COMMUNITY CONTRASTS SHARPLY WITH THE GLOOMY SKIES CURRENTLY SETTLING IN OVER NCB. TALES OF ACCOUNT CLOSINGS ARE RAMPANT, ALTHOUGH THE TALE VARIES WITH THE TELLER.

B1, B4

NCB RECENTLY STATED THAT ITS TOTAL DEPOSIT BASE IN 1991 WAS SR 75.6 BILLION (USD 20.2 BILLION).

7.

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8. CLAIMS OF FOREIGN CREDIT LINE LOSSES ARE AS WIDESPREAD AS THE DEPOSIT LOSS REPORTS. ONE REPORTS THAT SOME GERMAN BANKS HAD ALREADY CLOSED THEIR CREDIT LINES TO NCB, AND THAT SOME BRITISH BANKS WERE SERIOUSLY CONSIDERING THE SAME MOVE.

B1

B1

... TOLD ...
(THAT) SOME JAPANESE BANKS HAD STOPPED CONFIRMING NCB LETTERS OF CREDIT.

9. NCB FACES GROWING PRESSURE FROM WITHIN AND FROM THE SAUDI ARABIAN MONETARY AGENCY (SAMA--THE CENTRAL BANK) TO PUBLISH AN ANNUAL REPORT. A SAMA OFFICIAL ON JULY 20 SAID THAT NCB WOULD PRODUCE SUCH A REPORT WITHIN TWO WEEKS. NCB OFFICERS ARE SAYING THAT THEIR INTENSIVE EFFORTS TO PUBLISH A REPORT WILL BEAR FRUIT IN TWO MONTHS. THE TIME DIFFERENCE FITS SAMA'S DESIRE FOR RAPID

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DAMAGE CONTROL AGAINST NCB'S CHALLENGE IN SWEEPING
COBWEBS--WHICH ARE PROBABLY RATHER SIZEABLE--FROM ITS
ACCOUNTING LEDGERS.

COMMENT: BAD NEWS-GOOD NEWS

10. NCB'S SLIDE TOWARD THE BCCI MORASS CARRIES A HOST OF
BAD NEWS-GOOD NEWS ELEMENTS. THE BAD NEWS, OF COURSE, IS
THAT KHALID-BCCI HAPPENED AT ALL. THE GOOD NEWS IS THAT
IT HAPPENED TO THE KINGDOM'S ONLY PRIVATELY OWNED BANK,
WHICH ALREADY SUFFERED FROM A REPUTATION OF SECRETLY
OPERATING OUTSIDE THE BORDERS OF REGULATION. IF ONE OF
THE KINGDOM'S OTHER BANKS HAD GOTTEN CAUGHT WITH SERIOUS
BCCI DIRT ON ITS HANDS, THOSE WHO BELIEVED SAMA TIGHTLY
REGULATED THE 11 PUBLICLY OWNED BANKS HERE WOULD HAVE
BEEN MUCH MORE INCLINED TO SUSPECT THE WHOLE SYSTEM WAS
SOUR.

11.

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12. SAMA WOULD PULL OUT ALL STOPS AVAILABLE TO SAVE THE
KINGDOM'S FINANCIAL SYSTEM, BUT ITS OPTIONS ARE MUCH MORE
LIMITED NOW THAN IN THE PAST. IT NO LONGER ENJOYS
SIZEABLE FOREIGN ASSETS OR DOMESTIC HOLDINGS, NOR CAN IT
EXPECT EASY ACCESS TO LARGE FOREIGN CREDITS. NCB
COMPETITORS CAN PROVIDE LIQUIDITY--UNDER PRESSURE FROM
SAMA--TO KEEP THE TROUBLED BANK AFLOAT, UNLESS OF COURSE
MASSIVE CAPITAL FLIGHT FROM THE COUNTRY OCCURS.

13. MISSION WILL CONTINUE TO MONITOR THE DOMESTIC IMPACT
OF THE KHALID-BCCI AFFAIR AS IT UNWINDS, AND WOULD
APPRECIATE CONTINUED UPDATES FROM WASHINGTON OF U.S.
LEGAL EFFORTS AGAINST KHALID AND NCB. FREEMAN

ADMIN

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